

Message Text

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SUBJECT: EC FISCAL COUNCIL, NOV 24: HIGHLIGHTS

REF EC BRUSSELS 10463

1. BEGIN SUMMARY. AT THE EC COUNCIL OF MINISTERS MEETING DEVOTED TO FISCAL MATTERS, WHICH WAS HELD IN BRUSSELS ON NOV 24, SOME PROGRESS WAS MADE IN HARMONIZING THE ASSESSMENT BASE FOR VALUE ADDED TAX (VAT) CALCULATIONS IN THE EC MEMBER STATES. AT LEAST TWO ADDITIONAL COUNCIL MEETINGS WILL BE REQUIRED BEFORE THE COMMUNITY WILL BE READY TO IMPLEMENT THE DECISION WHICH IT TOOK ON APRIL 1, 1970 TO FINANCE THE COMMUNITY VIA THE "OWN RESOURCES" SYSTEM. END SUMMARY

2. THE EC COUNCIL OF MINISTERS HELD ONE OF ITS IRREGULAR SESSIONS DEVOTED TO FISCAL QUESTIONS IN BRUSSELS ON NOV 24. THE MINISTERS EXCHANGED VIEWS ON A NUMBER OF BASIC QUESTIONS CONCERNING THE COMMISSION'S SIXTH DRAFT DIRECTIVE REGARDING THE HARMONIZATION OF MEMBERS STATE LEGISLATION ON VALUE ADDED TAX (VAT). DISCUSSIONS AT THIS SESSION FOCUSED NOT ON HARMONIZING THE PERCENTAGE RATES OF VAT, BUT RATHER ON HARMONIZING MEMBER STATES' TAX ASSESSMENT

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BASES SO AS TO FACILITATE PUTTING INTO OPERATION THE COMMUNITY'S

"OWN RESOURCES" FINANCING SYSTEM. ACCORDING TO PERM DEL AND COUNCIL SOURCES, ALL MEMBER STATES AGREED THAT A COMPLETELY UNIFORM SYSTEM IS NOT FEASIBLE AND THAT EXCEPTIONS TO ANY RULES' ADOPTED ON A COMMUNITY-WIDE BASIS WOULD HAVE TO BE PERMITTED IN A NUMBER OF CASES. SIX SPECIFIC CATEGORIES OF EXCEPTIONS WERE CONSIDERED:

3. ZERO RATES: THE MEMBER STATES AGREED THAT THOSE COUNTRIES WHICH NOW HAVE ZERO VAT RATES SHOULD BE PERMITTED TO RETAIN THEM. A DISAGREEMENT EMERGED, HOWEVER, AS TO WHETHER ZERO RATES COULD BE EXTENDED TO OTHER PRODUCTS. EC COMMISSION VICE PRESIDENT SIMONET FORCEFULLY MAINTAINED THAT THE INTRODUCTION OF NEW ZERO RATES OR "FALSE-ZERO RATES," I.E. THE FIXING OF VAT AT A LEVEL SO LOW AS TO PRODUCE NO APPRECIABLE TAX REVENUE, WOULD BE IN VIOLATION OF THE PROVISION OF THE 1970 DIRECTIVE AND WOULD FORCE THE C COMMISSION TO TAKE THE MEMBER STATE IN QUESTION TO THE EC COURT OF JUSTICE. OTHER MEMBER STATES QUESTIONED SIMONET'S ARGUMENT, SAYING THAT IT APPEARED LEGALLY PERMISSIBLE FOR THOSE COUNTRIES WHICH ALREADY HAD ZERO RATE PROVISIONS IN THEIR TAX SYSTEM TO EXPAND THEIR USE TO COVER ADDITIONAL PRODUCTS. (SPEAKING TO THE PRESS FOLLOWING THE COUNCIL SESSION, UK PAYMASTER GENRAL DELL SAID HMG "DID NOT WISH TO EXCLUDE THE POSSIBILITY OF INTRODUCING NEW ZERO RATES.) OUR SOURCES REPORT THE DISCUSSION WAS LESS CLEAR, HOWEVER, REGARDING THE ACCEPTABILITY OF THE INTRODUCTION OF ZERO RATES IN MEMBER STATES WHERE NONE NOW EXIST.

4. REDUCED RATES: MEMBER STATES ALSO AGREED UPON THE NECESSITY TO RETAIN A SYSTEM OF REDUCED RATE VAT CALCULATIONS. (THIS REFERS NOT TO REDUCTIONS IN THE PERCENTAGE OF VAT BUT RATHER TO SITUATIONS WHERE SPECIAL CREDIT IS GIVEN TO BUSINESSMEN WHO CONSISTENTLY PAY HIGHER VAT RATES ON THEIR SUPPLIES THAN THEY COLLECT ON THEIR FINAL PRODUCT.)

5. EXEMPTIONS FOR SMALL BUSINESS: THE MINISTERS DISCUSSED AT LENGTH THE FIFFERING CUT-OFF LEVELS CURRENTLY EXISTING IN MEMBER STATES BELOW WHICH BUSINESSMEN ARE EXEMPT FROM TVA CALCULATION AND COLLECTION. (THESE RANGE FROM AN ANNUAL TURNOVER OF APPROXIMATELY \$850 IN DENMARK TO APPROXIMATELY \$24,000 IN IRELAND.) THE COMMISSION PROPOSED THE FIXING OF THIS CUT-OFF POINT AT 4,000 UNITS OF ACCOUNT PER ANNUM TURNOVER, BUT NO AGREEMENT WAS LIMITED OFFICIAL USE

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REACHED PENDING FURTHER STUDY.

6. TREATMENT OF EXCISE TAXES: WITH THE EXCEPTION OF ITALY, THE MEMBERS STATES FAVORED THE COLLECTION OV VAT ON THE VALUE OF A PRODUCT AT THE SELLING POINT INCLUDING EXCISE TAXES. THE ITALIAN DELEGATION IS EXPECTED TO AGREE TO EXCISE TAX INCLUSION IN RETURN FOR CONSESSIONS ELSEWHERE IN THE FRAFT DIRECTIVE.

7. AGRICULTURE: THE MINISTERS ACKNOWLEDGED THE CONSIDERABLE VARIATION BETWEEN THE MEMBER STATES WITH REGARD TO THE TAX-RELATED DEFINITION OF AGRICULTURE AND ITS EXEMPTION STATUS FROM VAT. IN SOME MEMBER STATE AGRICULTURAL PRODUCERS ARE EXEMPT FROM TAXATION ON THE BASIS OF A TURNOVER THRESHOLD WHILE IN OTHERS THEY PAY ONLY A FLAT RATE TAX. ON THE BASIS OF THE COUNCIL DISCUSSION, THE COMMISSION IS TO REFINE ITS THINKING AND TO ATTEMPT TO REACH AN AGREEMENT VIA THE EC COMMITTEE OF PERMANENT REPRESENTATIVES (COREPER).

8. NEW BUILDINGS AND BUILDING SITES: OUR SOURCES INDICATE IT WAS THE GENERAL VIEW THAT BOTH NEW BUILDINGS AND LAND FOR CONSTRUCTION OF NEW BUILDINGS SHOULD BE EXEMPTED FROM THE VAT STRUCTURE.

9. REVIEW OF EXEMPTION: MOST MEMBER STATES AGREED THAT THE ABOVE EXEMPTIONS WERE "TEMPORARY" AND THAT THEY SHOULD BE REVIEWED "PERIODICALLY." COUNCIL SOURCES INDICATE NO TIME PERIOD WAS FIXED, BUT THAT RENEWAL EVERY THREE TO FOUR YEARS SEEMED TO BE FAVORED.

10. WHILE THE MINISTERS MADE WHAT WAS TERMED "EXCELLENT PROGRESS" IN CLARIFYING THEIR POSITIONS REGARDING THE SIX EXEMPTIONS NOTED ABOVE, CONSIDERABLE WORK REMAINS. IN ALMOST EVERY INSTANCE MINISTERS FOUND THEY LACKED THE DATA TO ASSESS THE IMPACT, IN COMMUNITY BUDGET TERMS, OF THESE EXEMPTIONS. THE COMMISSION AND COREPER, AS WELL AS THE INDIVIDUAL MEMBER STATES WILL, ON THE BASIS OF THE COUNCIL'S DISCUSSIONS SEEK TO DEVELOP THIS DATA SO THAT WHEN THE COUNCIL MEETS AGAIN -- PROBABLY IN THE FIRST HALF OF 1976 -- THE MINISTERS MAY HAVE A BETTER IDEA OF THE IMPACT OF THE VARIOUS EXEMPTIONS PROPOSALS.

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11. COMPENSATION TO THE COMMUNITY FOR EXEMPTIONS: THE MINISTERS DISCUSSED BRIEFLY THE NEED TO ESTABLISH A MECHANISM TO COMPENSATE THE COMMUNITY FOR ITS REDUCED COLLECTION OF VAT UNDER THE "OWN RESOURCES" SYSTEM RESULTING FROM THE SHRINKING OF THE ASSESSMENT BASE BROUGHT ABOUT BY THESE EXEMPTIONS. NO DECISIONS WERE TAKEN AND THE QUESTION OF COMPENSATION IS LIKELY TO BE ONE OF THE LAST ISSUES TO BE RESOLVED IN CONNECTION WITH THE HARMONIZATION NECESSARY TO PUT THE "OWN RESOURCES" SYSTEM INTO OPERATION.

12. TAX ACTION PROGRAM: MOVING ON FROM VAT BASE HARMONIZATION, THE MINISTERS HELD A SHORT INITIAL DEBATE ON THE COMMISSION'S PROPOSED TAX ACTION PROGRAM. ON THE BASIS OF THIS DEBATE, THE COMMISSION WORKING WITH COREPER IS TO REFINE ITS PROPOSAL FOR PRESENTATION AT THE NEXT FISCAL COUNCIL.

13. COMMENT. MOST OF OUR SOURCES HAVE DESCRIBED THIS COUNCIL SESSION AS PRODUCTIVE AND USEFUL AND HAVE NOTED WITH APPROVAL THE FORCEFUL CHAIRMANSHIP OF ITALIAN FINANCE MINISTER VISENTINI. THEY POINT TO THE FACT THAT TAX QUESTIONS WERE PREVIOUSLY CONSIDERED AS MATTERS OF SECONDARY IMPORTANCE AND WERE HANDLED BY EC ECONOMIC AND FINANCE MINISTERS AT THEIR MONTHLY SESSIONS. ALL SOURCES EMPHASIZED THAT MUCH WORK REMAINS TO BE DONE ON THE HARMONIZATION OF

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THE COMMUNITY'S VAT TAX ASSESSMENT BASE BEFORE THE "OWN RESOURCES" SYSTEM FOR FINANCING THE EC CAN BECOME OPERATIONAL. MEMBER STATE DELEGATIONS ARE NOW TAKING TACTICAL POSITIONS AIMED AT SECURING MAXIMUM BARGAINING LEVERAGE FOR THE COMPROMISES WHICH LIE AHEAD. TWO OR THREE ADDITIONAL FISCAL COUNCIL SESSIONS WILL BE REQUIRED BEFORE FULL AGREEMENT IS REACHED. SOME OFFICIALS GO SO FAR AS TO DOUBT THAT THIS WILL BE POSSIBLE BY THE TARGET DATE OF 1 JAN 78. END COMMENT. MORRIS

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